



Canadian Imperial Bank of Commerce's Takeover of PrivateBancorp Inc. Approved: Time to Buy?

Description

PrivateBancorp Inc. (NASDAQ:PVTB) shareholders have spoken, and they're in favour of a takeover by **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) in a deal worth US\$4.9 billion. Although the Institutional Shareholder Services (ISS) advised investors to vote against the takeover, it's ultimately the shareholders who will have the final say.

CIBC had to sweeten the deal twice over the past few weeks, and the general public doesn't like the hefty US\$4.9 billion price tag, but over the long term I think the addition of PrivateBancorp will make CIBC a stronger bank that will be able to better compete with its peers in the Big Five over the course of the next decade.

PrivateBancorp shareholders will receive US\$27.20 in cash as well as 0.4176 common shares of CIBC for each share of PrivateBancorp. The deal is still waiting for the approval by banking regulators in Canada and the U.S. If everything goes smoothly, it's believed that closing conditions will be met to finalize the deal in June.

What will PrivateBancorp mean for CIBC in the long run?

CIBC has always been one of the cheapest of the Big Five banks. A huge reason for this discount to its peers is because of the company's lack of international exposure. I believe the U.S. exposure from PrivateBancorp will allow CIBC to become a major Big Five player, and it's likely that we'll see the discount relative to its Big Five peers decrease over the next decade as CIBC catches up.

Sure, US\$4.9 billion is not a value price, but in the long run, I think it will be well worth it. The acquisition will not mean much over the short to medium term, as it won't be accretive to CIBC's financials until 2020.

I suspect that many investors with an investment horizon of fewer than five years will be disappointed by the acquisition, and it's possible that CIBC shares could pull back in the coming weeks. If you're a long-term investor, then such a sell-off would present a huge buying opportunity for investors.

There are many synergy opportunities on the table once the deal closes. Although expensive, this strategic acquisition could be the last piece in the puzzle.

Valuation

CIBC is dirt cheap right now with a 9.1 price-to-earnings multiple. This valuation may seem too good to be true, but I think it's an opportunity to pick up shares of a wonderful business at a discount to its intrinsic value.

CIBC has a considerable amount of exposure to the overheated Canadian housing market, but that's already baked in to the stock, and I think the all the pessimism over CIBC, as well as the Canadian banks, is overblown right now.

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